

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: The ARC of Amador and Calaveras ("ARC") 75 Academy Drive Sutter Creek, California Amador County		Amount Requested: \$260,000	
		Requested Loan Term: 10 years	
		Date Requested: March 28, 2002	
		Resolution Number: HII-117	
Project Sites: 75 Academy Drive, Sutter Creek, California 127 Bellview, San Andreas, California			
Facility Type: Adult day care and employment services for the developmentally disabled.			
Use of Loan Proceeds: Loan proceeds will be used to refinance an existing loan with a balloon payment due in January 2003 on its Sutter Creek property. Annual savings are estimated to be approximately \$6,000 due to the lower interest rate. In addition, ARC will use loan funds to renovate a recently purchased building located in San Andreas.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		Yes. (Currently has an outstanding HELP II loan.)	
Payments up to date:		Yes. (Balance as of March 5, 2002 is \$138,855.)	
Financial Overview: Although largely dependent on government reimbursement, ARC's financial position is stable with consistent profitability. Further aiding stability is ARC's strong market presence in both Amador and Calaveras counties. ARC's balance sheet remains strong with good liquidity and a satisfactory projected debt service coverage ratio.			
Sources of Revenue: (FYE 6-30-01)		<u>Amount</u>	<u>Percent</u>
Program service fees		\$1,346,964	95.5%
Support		53,478	3.8%
Other revenue		<u>10,009</u>	<u>0.7%</u>
Total operating revenue		<u>\$1,410,451</u>	<u>100.0%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$260,000	Balloon payment	\$150,000
Borrower's Funds	15,000	Renovation	119,750
		Financing Costs	<u>5,250</u>
Total Uses	<u>\$275,000</u>	Total Sources	<u>\$275,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$260,000 for a term not to exceed 10 years for the ARC of Amador and Calaveras, subject to a final appraised value on the Sutter Creek and both San Andreas properties satisfactory to the Authority and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

The ARC of Amador and Calaveras

March 28, 2002

Resolution Number: HII-117

I. PURPOSE OF FINANCING: ARC proposes to expand services for its supported living and supported employment population by renovating a recently acquired building in San Andreas. This expansion will provide additional capacity to meet the demand for its services. In addition, ARC is proposing to refinance a balloon payment due in January 2003 in order to reduce overall debt service and redirect the savings towards improvement of services.

Renovation on recently purchased facility in San Andreas\$119,750

In September 2001, ARC purchased a 1,000 square foot building in downtown San Andreas for \$90,000. Loan proceeds will be used to renovate the property, which is located at 127 Bellview next to ARC’s existing property (153 Bellview). The project includes removing debris from the property, adding a parking lot, drainage improvements and remodeling the existing structure into a multi-purpose facility and providing disabled access. According to management, the estimated value with improvements is \$175,000.

Refinance existing loan on the Sutter Creek property150,000

Loan proceeds will be used to refinance an existing loan with a balloon payment due in January 2003 on its Sutter Creek property located at 75 Academy Drive. The current interest rate on this note is 9.5% and the estimated loan balance as of January 2003 will be \$150,000. Annual savings are estimated to be approximately \$6,000 per year due to the lower interest rate. ARC wishes to fund this loan in January 2003 due to a significant prepayment penalty which would be incurred if paid prior to January. Staff proposes to prepare separate loan documents and disbursements regarding ARC’s financing request. The property was purchased in February 1998 for \$395,000 and is used by ARC to operate a 6,000 square foot adult day care facility. ARC is in the process of having the property appraised. Management estimates its value at approximately \$400,000.

The Authority will take a blanket 2nd position liens on the three properties owned by ARC. The total combined appraised values on the three properties must be satisfactory to the Authority’s policies with a combined loan to value ratio not to exceed 95%. (See page 3 for additional details on ARC’s properties.)

<i>Financing Costs</i>	<u>5,250</u>
Authority Fee	3,250
Title/escrow fees	2,000
 <i>Total</i>	 <u>\$275,000</u>

Financing structure:

San Andreas Site

- 10-year fully amortized loan term in the amount of \$110,000.
- 120 equal monthly payments of approximately \$1,062 (total annual payments of \$12,744).
- Total interest payments of approximately \$17,460.
- A second position lien in the amount of \$110,000 (subordinate to an existing loan payable to Alonso of approximately \$44,000) on the property located at 127 Bellview in San Andreas, California.
- A second position lien in the amount of \$110,000 (subordinate to an existing HELP II loan of approximately \$138,855) on the property located at 153 Bellview in San Andreas, California.
- Corporate gross revenue pledge.
- Maximum combined loan to value ratio of 95%.
- Estimated loan closing date: June 2002

Sutter Creek Site

- 10-year fully amortized loan term in the amount of \$150,000.
- 120 equal monthly payments of approximately \$1,448 (total annual payments of \$17,376).
- Total interest payments of approximately \$23,809.
- A second position lien in the amount of \$150,000 (subordinate to an existing HELP II loan of \$138,855) on the property located at 75 Academy Drive, Sutter Creek, California.
- Corporate gross revenue pledge.
- Maximum combined loan to value ratio of 95%.
- Estimated loan closing date: January 2003

Authority positions after financing

Collateral	Estimated value	Liens
75 Academy Drive Sutter Creek CA	\$400,000	1 st position lien - \$138,855 (CHFFA) Proposed 2 nd position lien - \$150,000 (CHFFA)
127 Bellview San Andreas, CA	\$175,000 (as improved)	1st position lien - \$44,227 (private payee) Proposed 2 nd position lien - \$110,000 (CHFFA)
153 Bellview San Andreas, CA	\$235,000	1 st position lien - \$138,855 (CHFFA) Proposed 2 nd position lien - \$110,000 (CHFFA)
Total CHFFA Liens	\$398,855	
Total Estimated Value	\$810,000	
Combined loan to value ratio	49%	

II. FINANCIAL STATEMENTS AND ANALYSIS:

The ARC of Amador and Calaveras Statement of Activities Unrestricted

	Seven Month Period Ended January 2002 (Unaudited)	For the Year Ended June 30		
		2001	2000	1999
Revenue, gains and other support				
Support	\$ 13,878	\$ 53,478	\$ 46,324	\$ 37,530
Program service fees	861,789	1,346,964	1,099,053	935,815
Other revenue	79,696	10,009	90,653	18,880
Total revenue, gains and other support	<u>955,363</u>	<u>1,410,451</u>	<u>1,236,030</u>	<u>992,225</u>
Expenses				
Salaries	529,214	835,755	694,420	549,623
Employee benefits	98,457	128,875	103,421	83,138
Payroll taxes	72,282	118,147	82,958	61,563
General operating expenses	29,761	54,890	50,782	59,123
Depreciation	38,920	48,194	45,709	40,382
Supplies	27,330	36,780	31,724	24,482
Travel	17,646	31,821	25,482	14,533
Maintenance	15,029	26,975	22,726	24,134
Insurance	15,911	21,657	21,809	20,674
Utilities	11,638	17,952	15,742	15,490
Rental and leasing	6,123	14,851	9,833	5,259
Communications	8,393	12,505	12,141	9,604
Training	5,096	4,784	3,970	3,336
Meetings	387	2,856	1,075	1,320
Other	8,934	19,145	19,390	15,591
Total expenses	<u>885,121</u>	<u>1,375,187</u>	<u>1,141,182</u>	<u>928,252</u>
Increase in unrestricted net assets	70,242	35,264	94,848	63,973
Unrestricted net assets, beginning of year	<u>874,790</u>	<u>839,526</u>	<u>744,678</u>	<u>680,705</u>
Unrestricted net assets, end of year	<u>\$ 945,032</u>	<u>\$ 874,790</u>	<u>\$ 839,526</u>	<u>\$ 744,678</u>

The ARC of Amador and Calaveras
Balance Sheet

	As of January 2002 (Unaudited)	<u>As of June 30</u>		
		<u>2001</u>	<u>2000</u>	<u>1999</u>
ASSETS				
Current assets:				
Cash	\$ 133,188	\$ 151,809	\$ 206,302	\$ 197,339
Accounts receivable	129,547	145,654	105,587	98,950
Interest receivable	1,982	3,113	6,041	5,937
Prepaid expenses and deposits	41,818	39,539	38,890	41,518
Total current assets	<u>306,535</u>	<u>340,115</u>	<u>356,820</u>	<u>343,744</u>
Investments	283,294	279,409	216,799	151,754
Property and equipment, net	824,225	686,044	711,984	695,842
Total assets	<u>\$ 1,414,054</u>	<u>\$ 1,305,568</u>	<u>\$ 1,285,603</u>	<u>\$ 1,191,340</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued payroll	\$ 112,844	\$ 102,228	\$ 90,254	\$ 65,008
Long-term debt, current portion	27,628	28,787	27,530	24,494
Total current liabilities	<u>140,472</u>	<u>131,015</u>	<u>117,784</u>	<u>89,502</u>
Long term debt, less current portion	328,550	299,763	328,293	357,160
Total liabilities	469,022	430,778	446,077	446,662
Unrestricted net assets	945,032	874,790	839,526	744,678
Total liabilities and net assets	<u>\$ 1,414,054</u>	<u>\$ 1,305,568</u>	<u>\$ 1,285,603</u>	<u>\$ 1,191,340</u>

Financial Ratios:

	Proforma (1) FYE 2001			
Debt Service Coverage (x)	1.39	1.75	3.08	2.19
Debt/Unrestricted Net Assets (x)	.67	.38	.42	.51
Margin (%)		2.50%	7.67%	6.45%
Current Ratio (x)		2.60	3.03	3.84

(1) Recalculates June 2001 audited results to include the impact of this financing.

Financial Discussion:

Although largely dependent on government reimbursement, ARC's financial position is stable with consistent profitability. Further aiding stability is ARC's strong market presence in both Amador and Calaveras counties.

ARC's has been in operations since 1971. Their financial position is stable and has consistently generated positive net income over our review period. ARC is largely dependent on government reimbursement from California State Department of Rehabilitation and the Valley Mountain Regional Center. These government contracts consistently provide for approximately 94% of ARC's total revenues from year to year. Government program service fees have exhibited strong growth, as ARC has recently expanded its operations. Currently, ARC provides services to approximately 75 participants per day in which it receives approximately \$67 per day for each participant in the Calaveras Day Program and \$38 per hour for each participant in the Supported Living Services. The proposed refinancing of its existing 9.5% loan will further strengthen operational cash flow by lowering ARC's monthly payment by approximately \$500, thus improving future operating results.

ARC's balance sheet remains strong with good liquidity and a satisfactory projected debt service coverage ratio.

ARC's balance sheet is solid with good liquidity, minimal long-term debt, and significant net assets. ARC's strong liquidity is exhibited by its \$151,000 cash position. In addition, ARC has approximately \$279,000 in its investment portfolio. ARC has expanded its operations with minimal increases in its long-term debt. Currently, ARC has approximately \$300,000 in long-term debt compared to approximately \$900,000 in net assets. With the proposed HELP II loan financing, debt service coverage ratio will remain satisfactory at 1.39x, indicating ARC's ability to meet future debt service payments.

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III. UTILIZATION STATISTICS:

<u>Type of Service</u>	Annual Units of Service Provided – Various Programs			
	Six Months Ended		Fiscal Year Ending June 30	
	December 31	2001	2000	1999
Recreation	4,275 hours	10,344 hours	10,375 hours	10,201 hours
Community Services	7,661 days	13,255 days	12,190 days	11,238 days
Supported Employment	2,759 hours	5,466 hours	5,403 hours	4,912 hours
Supported Living	4,250 hours	7,865 hours	7,569 hours	6,301 hours
Total Visits	18,945 units	36,930 units	35,537 units	32,652 units

IV. ORGANIZATION:

Background: The ARC of Amador and Calaveras was founded by a group of parents in 1971 that wanted services for their adult children with developmental disabilities to better live, work and learn after they graduated from Special Education. Facilities include a 2,800 square foot building on one-half acre in San Andreas (Calaveras County), and a 6,000 square foot building on one acre in Sutter Creek (Amador County).

The ARC currently offers three main programs: Day Program, Supported Employment, and Recreation. Day Program services emphasize the development of self-help, self-advocacy, communication, vocational, and social skills.

The Supported Employment program helps developmentally disabled clients get jobs in the community, including job coaching, money management skills, and advocacy designed to help clients be successful in the work world over long periods of time.

The Recreation Program takes place evenings and weekends and is designed to help clients learn how to make healthy leisure choices and develop positive relationships. The Recreation Program provides the transportation and support necessary for people to participate in activities such as camping trips and dinners out.

Licenses: The ARC of Amador and Calaveras is licensed by the Department of Social Services to operate and maintain two Adult Day Care facilities for developmental disabilities. The facility located in Sutter Creek is licensed to provide Adult Day Care services for 45 participants, 43 ambulatory and 2 non-ambulatory. The facility in San Andreas is licensed to provide Adult Day Care services for 40 participants, 35 ambulatory and 5 non-ambulatory.

Contracts: The ARC has multiple contracts with various governmental entities. It contracts with Medi-Cal as well as the Valley Mountain Regional Center and California Department of

Rehabilitation for adult day care, recreation, and employment services. The ARC also has numerous contracts with local businesses to provide job opportunities for its Supported Employment program.

Competition: In Amador County, ARC is the largest provider of adult day care services with approximately 80% of the market share. In Calaveras County, ARC provides 70% of the market share for adult day care services to people with developmental disabilities. ARC is the sole provider in the Supported Living and Supported Employment Services for Amador and Calaveras.

Health Facility Location	Clients Enrolled	Market Share (%)	Estimated Distance Away
Community Compass (Amador County)	10	20%	3 miles
ARC – Sutter Creek Site	37	80%	N/A
Ventures (Calaveras County)	15	30%	12 miles
ARC – San Andreas Sites	35	70%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 1/31/02 (Unaudited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Note payable – Hazel Brooks	\$195,000	\$166,601	\$-0-
CHFFA HELP II Loan, 1999	188,000	140,320	138,855*
Note payable – Joe M. Alonso	90,000	44,227	44,227
Lease payable – AT&T Capital Corporation	13,540	5,030	5,030
Proposed:			
CHFFA HELP II Loan, 2002		N/A	260,000
TOTAL DEBT		\$356,178	\$449,577

*Balance as of March 5, 2002.

VI. SECTION 15438.5 OF THE ACT:

Annual savings of approximately \$6,000 per year resulting from this proposed financing and refinancing (compare to conventional financing of 9.5%) will contribute to ARC's long-term viability and provide additional services to clients with quality staff, equipment and vehicles.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$260,000 for a term not to exceed 10 years for the ARC of Amador and Calaveras, subject to a final appraised value on the Sutter Creek and both San Andreas properties satisfactory to the Authority and the standard HELP II loan provisions.